

VZCZCXYZ0000
RR RUEHWEB

DE RUEHJM #0101/01 0151831
ZNY CCCCC ZZH
R 151831Z JAN 10
FM AMCONSUL JERUSALEM
TO RUEHC/SECSTATE WASHDC 7313
INFO RUEHAM/AMEMBASSY AMMAN 8754
RUEHEG/AMEMBASSY CAIRO 5353
RUEHTV/AMEMBASSY TEL AVIV 5120
RHEHNSC/NSC WASHDC
RUEATRS/DEPT OF TREASURY WASHDC

C O N F I D E N T I A L JERUSALEM 000101

SIPDIS

NEA FOR NEA/IPA AND SEMEP; NSC FOR KUMAR; DEPT PLEASE PASS
TO USAID FOR ANE/MEA: NANDY/BORODIN; TREASURY FOR DMOGER,
CKNOWLES

E.O. 12958: DECL: 01/08/2020
TAGS: [ENRG](#) [ECON](#) [KPAL](#) [KWBG](#) [PGOV](#) [IS](#) [JO](#)
SUBJECT: PA FOCUSES ON WEST BANK ENERGY SECTOR:
ACCOUNTABILITY INCREASES, NET LENDING FALLS

Classified By: Consul General Daniel Rubinstein for reasons 1.4 b and d
.

¶1. (SBU) Summary. The Palestinian Authority (PA) is taking steps to improve governance and increase accountability in the West Bank energy sector. Its goal is to improve the sector's performance and lower its impact on the PA's budget.

Reform of the sector, including the establishment of an independent regulator, is a priority in Prime Minister Salam Fayyad's two-year state-building plan. The PA is currently developing its 2010 plans to increase energy availability and upgrade the existing network. End Summary.

¶2. (C) On December 28, the Chairman of the Palestinian Energy Authority (PEA), Dr. Omar Kittaneh, told Econoff that the PA was moving to implement the Electricity Law of May 2009, which it has highlighted as a priority. Immediate steps include the establishment of a regulatory committee for the energy sector, increasing collection rates, building four new substations, and establishing regional utility companies. Moreover, in 2010, PEA is laying the groundwork to increase energy sources and upgrade the existing network, Kittaneh said.

An Independent Regulator

¶3. (C) The PA Cabinet has approved the establishment of a regulatory committee, as called for in the Electricity Law. According to Kittaneh, the committee will be named in January. As chairman of the PEA, Kittaneh would serve as the committee's first chair for up to a year. After this transitional period under PEA stewardship, the committee would then be established as an independent regulatory body. Local World Bank representatives have stressed to Econoffs the importance of establishment of the regulatory committee as a means to start implementation of the Electricity Law.

¶4. (SBU) Establishment of this independent regulatory body will enable the PA to create and grant authority to regional utility companies to assume responsibility for provision of electricity to municipalities and local councils. By law, this shift should happen by June 2010. In return, municipalities will get ownership of shares in the utility companies, keeping any dividends that the shares yield.

"Time for Municipalities to Get
Out of the Electricity Business"

¶5. (SBU) Regional utility companies are intended to provide

the PA with a powerful tool to unwind electricity subsidies still being paid in the West Bank. The Israel Electric Company (IEC) currently provides the vast majority of the West Bank's electricity. Municipalities (and the two regional companies already established) are responsible for collecting payments and paying the IEC, but they have little to no incentive to do so, and have instead used PA subsidies to fund local services. The PA gets stuck with the bill (via monthly deductions from clearance revenues transferred from Israel). This "net lending" has been a large drain on the PA budget in recent years (an estimated USD 380 million in 2009).

16. (C) The PA has tried a number of limited fixes, including withholding services from those who cannot prove they have paid their bills and installing thousands of pre-paid meters. There have been improvements in collection rates and an overall decrease in net lending. However, municipalities are not obligated to report their IEC bills or reveal their accounting to the PEA, and this lack of transparency allows municipalities to set the price of electricity. "It is time," said Kittaneh, "for municipalities to get out of the electricity business."

17. (C) Under the new electricity law, the regulator will have the power to force municipalities and regional utility companies to provide records and accounting to the PEA. Revenue from electricity services will be devoted exclusively to the energy sector, with a new emphasis on maintaining and upgrading infrastructure. This month, said Kittaneh, energy prices will be published in the local media, adding transparency to the billing and collection system.

Improving the Network:

Priority Infrastructure Products

18. (C) The PEA's priority in improving the West Bank network is effort to build four substations at a cost of USD 63.7 million over the next three years. Kittaneh said that the contract should be finalized on January 20. This investment will reduce inefficiency as well as expand the capacity to distribute more power as demand grows.

19. (C) The PA also decided in December 2009 to increase the amount of energy imported from Jordan, through an arrangement with the Jordan Electricity Company to interconnect its system with the West Bank network. According to Kittaneh, the total cost for the interconnection is priced at USD 400 million, with 70 percent dedicated to upgrading the Jordanian network (building high voltage lines and substations) and 30 percent to the West Bank. The World Bank, French Development Agency, and European Investment Bank are reportedly interested in supporting the project. In addition, Kittaneh hopes to issue tenders in 2010 to build the West Bank's first power plant, near Tulkarm.

RUBINSTEIN